

Hero MotoCorp

Estimate change	↔
TP change	↔
Rating change	↔

CMP: INR4,067 **TP: INR4,761 (+17%)** **Buy**

In-line operating performance

Rural revival and budget sops to support entry-level demand

- Hero MotoCorp's (HMCL) 4QFY25 margins remained stable YoY and were also in line with our estimates. Reported EBITDA margin came in at 14.2%, while ICE margins stood at 16.1%, adjusted for the INR1.43b loss in EV business.
- We expect HMCL to deliver a volume CAGR of ~5% over FY25-27, driven by new launches and a ramp-up in exports. HMCL will also benefit from a gradual rural recovery, given strong brand equity in the economy and executive segments. The stock looks attractive at ~16.6x/15.3x FY26E/27E EPS. **We reiterate BUY with a TP of INR4,761 (17x FY27E EPS + INR110/INR140 for Hero FinCorp/ Ather post 20% Holdco discount).**

Q4 performance in line with estimates

- HMCL's 4Q PAT at INR10.5b was in line with our estimate.
- Revenue grew 4% YoY to INR99.4b, largely driven by 5% YoY growth in blended ASP, even as volumes declined 1% YoY.
- ASP was higher by 3% QoQ due to an improved mix, price hikes and the contribution from spare-parts revenue.
- Spare-parts revenue increased 11% YoY to INR15.5b.
- EBITDA margin came in at 14.2% and was in line with our estimate.
- ICE EBITDA margin stood at 16.1% in 4Q, adjusted for the INR1.43b loss in EV business.
- For FY25, HMCL revenue grew 9% YoY to INR408b. Volumes were up 5% YoY, while blended ASP grew 2% YoY.
- EBITDA margin in FY25 improved 40bp YoY to 14.4%. ICE margin stood at 16.2%, up 90bp YoY, adjusted for the INR6.3b loss in EV business.
- FCF for FY25 stood at INR33.7b after capex of INR8.1b.
- Management has declared a final dividend of INR165 per share, which translates into a payout ratio of 72%.

Highlights from the management commentary

- **Outlook:** Management expects the 2W industry to post 6-7% YoY growth in FY26, largely similar to FY25. Management also expects to outperform industry growth in FY26, backed by its upcoming new launches.
- HMCL has lined up two new affordable EVs, both of which are likely to be launched in Jul'25, to fill up the product gaps. These new products will help to accelerate EV growth in the coming quarters. They believe, at 25-30k monthly sales run rate, they can achieve break-even in EV business. It is, however, likely to be a couple of years away, as per management.
- In FY25, HMCL exports grew 43% YoY over a low base, 2x of industry growth. The company remains aggressive on export growth and is confident of outperforming industry growth going forward.
- HMCL has recently acquired a 34.1% stake in Euler Motors for INR5.1b, making it an associate company. As per management, 3W is an attractive alternate opportunity having an industry size of INR170b p.a. with attractive profit pools (20%+ EBITDA margin). Management believes Euler Motors has a differentiated product offering in the market. They are optimistic about the future growth prospects of this business.

Bloomberg	HMCL IN
Equity Shares (m)	200
M.Cap.(INRb)/(USD\$)	813.5 / 9.5
52-Week Range (INR)	6246 / 3323
1, 6, 12 Rel. Per (%)	3/-16/-30
12M Avg Val (INR M)	3405

Financials & Valuations (INR b)

Y/E March	2025	2026E	2027E
Sales	407.6	444.3	477.1
EBITDA	58.7	62.0	66.8
Adj. PAT	46.1	49.1	53.1
Adj. EPS (INR)	230.3	245.1	265.3
EPS Gr. (%)	12.6	6.4	8.3
BV/Sh. (INR)	989	1,059	1,135

Ratios

RoE (%)	24.4	23.9	24.2
RoCE (%)	23.9	23.4	23.7
Payout (%)	71.7	71.4	71.6

Valuations

P/E (x)	17.7	16.6	15.3
P/BV (x)	4.1	3.8	3.6
Div. Yield (%)	4.1	4.3	4.7
FCF Yield (%)	4.1	6.2	6.2

Shareholding Pattern (%)

As On	Mar-25	Dec-24	Mar-24
Promoter	34.7	34.7	34.8
DII	27.9	27.7	27.8
FII	27.4	28.0	28.9
Others	9.9	9.6	8.6

FII includes depository receipts

Valuation and view

- We expect HMCL to deliver a volume CAGR of ~5% over FY25-27, driven by new launches and a ramp-up in exports. HMCL will also benefit from a gradual rural recovery, given strong brand equity in the economy and executive segments.
- We expect a CAGR of ~8%/7%/7% in revenue/EBITDA/PAT over FY25-27E. The stock looks attractive at ~16.6x/15.3x FY26E/27E EPS. **We reiterate BUY with a TP of INR4,761 (17x FY27E EPS + INR110/INR140 for Hero FinCorp/Ather post 20% Holdco discount).**

Qty Performance (S/A)

Y/E March	FY24				FY25				FY24	FY25	4Q	(INR B) Var. (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Total Volumes ('000 nos)	1,353	1,417	1,460	1,392	1,535	1,520	1,464	1,381	5,621	5,899	1,381	0.0
Growth YoY (%)	-2.7	-0.8	17.8	9.6	13.5	7.3	0.3	-0.9	5.5	4.9	-0.9	
Net Realization	64,819	66,680	66,604	68,373	66,076	68,851	69,755	71,991	66,630	69,088	70,076	2.7
Growth YoY (%)	7.4	4.9	2.8	4.6	1.9	3.3	4.7	5.3	5.0	3.7	2.5	
Net Op Revenues	87.7	94.5	97.2	95.2	101.4	104.6	102.1	99.4	374.6	407.6	96.7	2.7
Growth YoY (%)	4.5	4.1	21.1	14.6	15.7	10.8	5.0	4.4	10.8	8.8	1.6	
RM Cost (% sales)	69.4	68.6	67.3	66.4	67.7	66.7	65.8	65.5	67.9	66.4	66.2	-70bp
Staff Cost (% sales)	6.6	6.1	6.2	6.8	6.0	6.2	6.5	6.8	6.4	6.4	6.8	-10bp
Other Exp (% sales)	10.3	11.2	12.5	12.5	11.9	12.6	13.3	13.5	11.7	12.8	12.7	90bp
EBITDA	12.1	13.3	13.6	13.6	14.6	15.2	14.8	14.2	52.6	58.7	13.9	2.2
Growth YoY (%)	28.2	27.9	47.4	25.5	21.0	14.1	8.4	4.1	0.0	0.0	2.0	
EBITDA Margins (%)	13.8	14.1	14.0	14.3	14.4	14.5	14.5	14.2	14.0	14.4	14.3	-10bp
Other Income	2.2	2.5	2.4	1.8	2.3	2.8	3.2	2.2	8.9	10.6	2.1	
Interest	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.2	0.2	0.1	
Depreciation	1.7	1.7	1.8	1.9	1.9	1.9	2.0	1.9	7.1	7.8	2.0	
PBT before EO Exp/(Inc)	12.5	14.0	14.2	13.5	14.9	16.0	15.9	14.4	54.2	61.3	13.9	
Effective Tax Rate (%)	24.7	24.6	24.3	24.7	24.8	24.8	24.4	25.1	24.5	24.8	24.5	
Adj. PAT	9.5	10.5	10.7	10.2	11.2	12.0	12.0	10.8	40.9	46.1	10.5	3.1
Growth (%)	51.4	47.2	51.0	18.3	18.7	14.2	12.1	6.4	40.5	12.7	3.2	



Key takeaways from the management commentary

Domestic 2W industry update

- Management expects the 2W industry to post 6-7% YoY growth in FY26, largely similar to FY25.
- Management also expects to outperform industry growth in FY26, backed by its upcoming new launches.
- They had taken a planned shutdown in four plants (Daruhara, Neemrana, Gurgaon and Haridwar) in Apr'25 for around five days to resolve supply-chain issues, which they timed with maintenance activity. However, the shutdown did not impact retails as HMCL clocked 500k units of retails in Apr'25. This did not also hurt channel inventory, which is now at 4-5 weeks and is likely to remain here going forward. This issue has now been resolved and production is back to normal from May'25 onward.
- HMCL has seen replacement demand bounce back to 11% from 6% QoQ in 4Q. This used to be around 18-20% before Covid.
- The company's spare parts and accessories business has been gradually scaling up on the back of improving penetration and expanding portfolio to products like tyres and batteries. HMCL aims to grow this business profitably. Its second global spare-parts centre is expected to come up in its Tirupati plant in the near future.

Update on EVs

- HMCL has now started to see a pick-up in traction for Vida products from 4Q, and the company ended the quarter with a 7% market share. In fact, HMCL has close to 20% market share in almost 60 towns now.
- It will continue to focus on improving market share in this segment.
- HMCL has lined up two new affordable EVs, both of which are likely to be launched in Jul'25 to fill up the product gaps. These new products will help to accelerate EV growth in the coming quarters.
- Management believes, at 25-30k monthly sales run rate, it can achieve break-even in EVs. This is, however, likely to take a couple of years, as per management.
- HMCL expects PLI approval for Vida Pro by Jul'25. It will soon file application for PLI approval for other models as well.

Update on Exports

- In FY25, exports grew 43% YoY over a low base, 2x of industry growth. Markets like Bangladesh, Columbia, Nepal and Mexico are driving strong growth for HMCL.
- Almost 40% of its exported models belong to the premium segment.
- HMCL continues to be aggressive on export growth and remains confident of outperforming industry growth going forward.

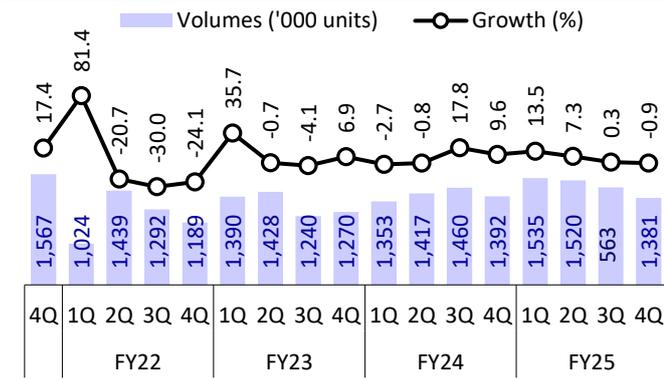
Feedback on new acquisition

- HMCL has recently acquired a 34.1% stake in Euler Motors for a consideration of INR5.1b, making it an associate company.
- As per management, 3W is an attractive alternate opportunity that HMCL would look to diversify into. Its large industry size (INR170b p.a.) with attractive profit pools (20%+ EBITDA margin) makes it an attractive investment option for future growth.
- Management believes Euler Motors has a differentiated product offering in the market with a mix of experienced and young professionals managing the business.
- Management is optimistic about the future growth prospects of this business.

Other Highlights

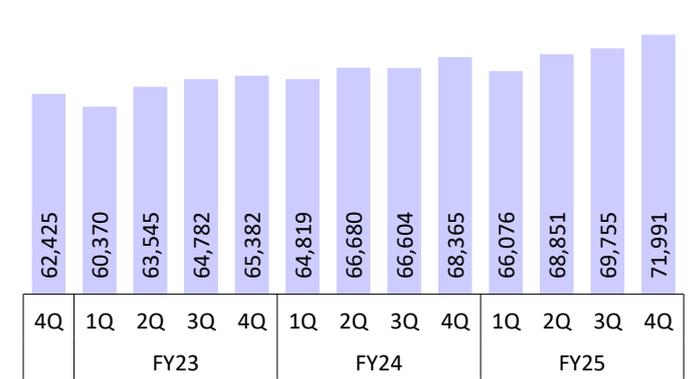
- HMCL has taken a 2% price hike wef Apr'25 to pass on the impact of OBD2 implementation, which has been in line with the industry.
- At a consolidated level, profit share from associates jumped in 4Q and FY25 due to the conversion of CCPS of Ather to equity shares, which led to a one-time gain of INR1.7b.
- Retail finance penetration remained stable at 59% in 4Q and 63% in FY25. With a reduction in interest rates, management expects the stress in the 2W financing system to ease out.

Exhibit 1: Trend in volumes



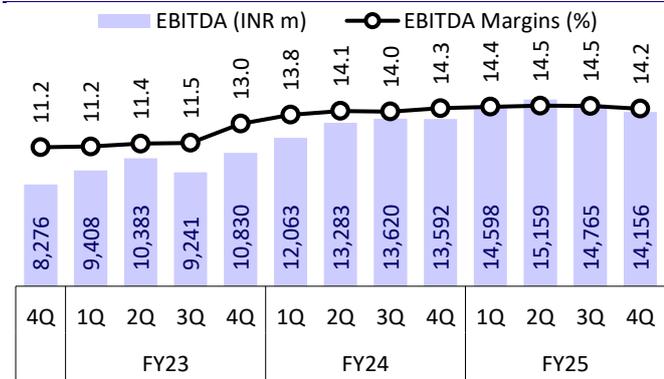
Source: SIAM

Exhibit 2: Trend in blended realizations



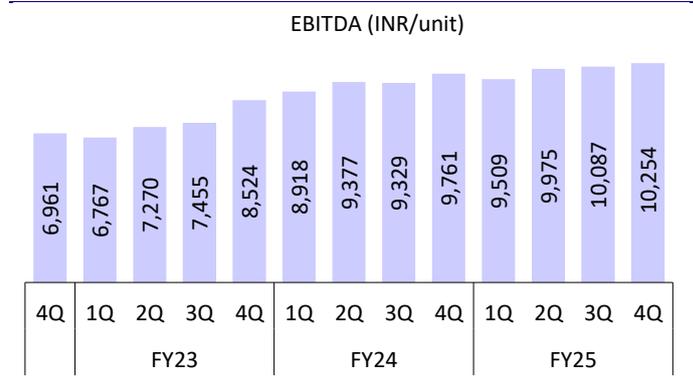
Source: Company, MOFSL

Exhibit 3: Trends in EBITDA and EBITDA margin



Source: Company, MOFSL

Exhibit 4: Trend in EBITDA per unit



Source: Company, MOFSL

Valuation and view

- **We expect HMCL to deliver a volume CAGR of ~5% over FY25-27**, driven by 1) new model launches in scooters and motorcycles showcased at the Bharat Mobility Show; 2) stable demand for its Xtreme 125 R; and 3) a ramp-up in exports. As highlighted, management has recently launched the Destiny 125cc, and is expected to launch the Xoom 125 and the Xoom125cc in the coming months. They would also launch the Xtreme 250R and the XPulse 210.
- **Gradual rural revival bodes well for HMCL:** Rural sentiment is positive given a good kharif output and healthy rabi sowing so far. Also, management has indicated that it is seeing a gradual recovery in rural markets currently. Given that HMCL has a dominant 100-110cc portfolio, any recovery in the rural region bodes well for the company. Further, the recent tax cut in the Union Budget is likely to help support entry-level demand, in our view. Overall, we expect the 100cc segment demand to pick up in FY26E and HMCL to emerge as a beneficiary of the same.
- **Exports offer a huge headroom for growth:** Exports to emerging markets present a huge opportunity (~2x that of the Indian market) for HMCL, given that it has a relatively smaller presence in exports so far. HMCL has doubled its target export markets to 40 countries over the past few years. Over the years, HMCL has been working on launching new products customized to key markets, revamping its distribution network, and investing in brand building in key markets. In FY25, HMCL posted 43% YoY growth in exports, 2x the industry

growth. We expect exports to continue to be a steady growth driver for HMCL in the coming years.

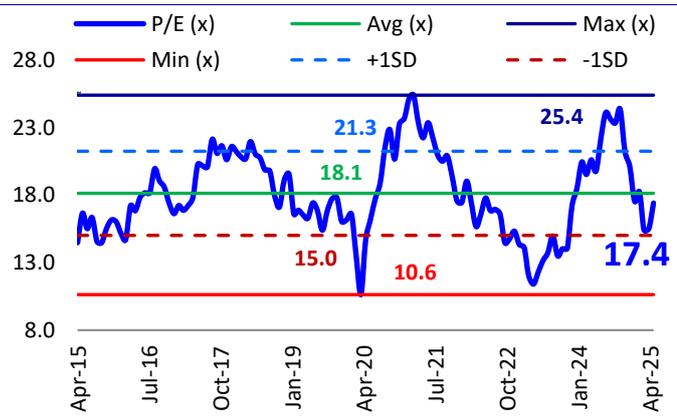
- Reiterate BUY:** We have marginally tweaked our estimates. We expect HMCL to deliver a volume CAGR of ~5% over FY25-27, driven by new launches and a ramp-up in exports. HMCL will also benefit from a gradual rural recovery, given strong brand equity in the economy and executive segments. HMCL’s strategy to grow non-domestic motorcycle sales via PAM, exports, and EVs should aid overall growth and margin expansion. The stock looks attractive at ~16.6x/15.3x FY26E/27E EPS. **We reiterate BUY with a TP of INR4,761 (17x FY27E EPS + INR110/INR140 for Hero FinCorp/Ather post 20% Holdco discount).**

Exhibit 5: Revisions to our estimates

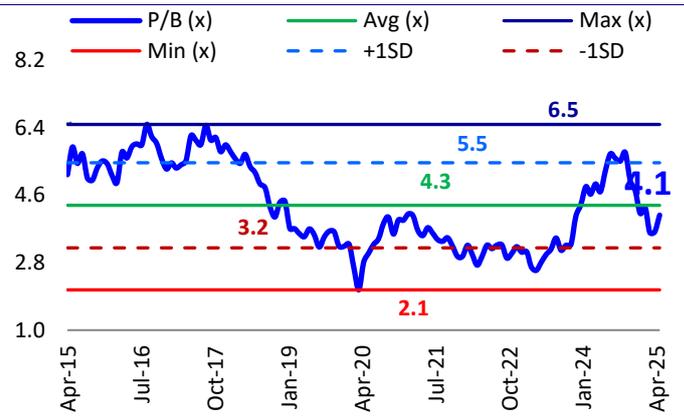
(INR b)	FY26E			FY27E		
	Rev	Old	Chg (%)	Rev	Old	Chg (%)
Volumes ('000 units)	6,207	6,206	0.0	6,537	6,535	0.0
Net Sales	444.3	434.1	2.4	477.1	466.0	2.4
EBITDA	62.0	60.8	2.0	66.8	65.4	2.1
EBITDA Margins (%)	14.0	14.0	0	14.0	14.0	0
Net Profit	49.1	48.0	2.2	53.1	52.0	2.2
EPS (INR)	245.1	239.8	2.2	265.3	259.6	2.2

Source: MOFSL

Exhibit 6: P/E and P/B bands

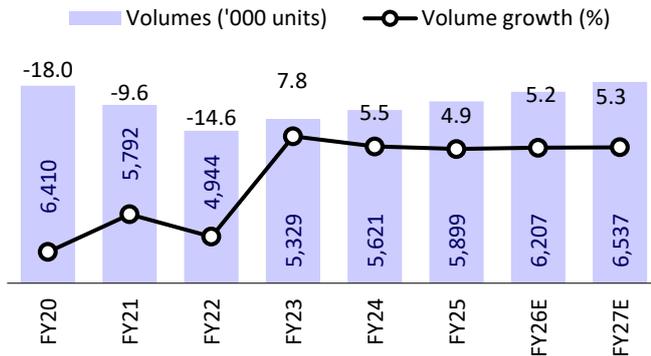


Source: MOFSL

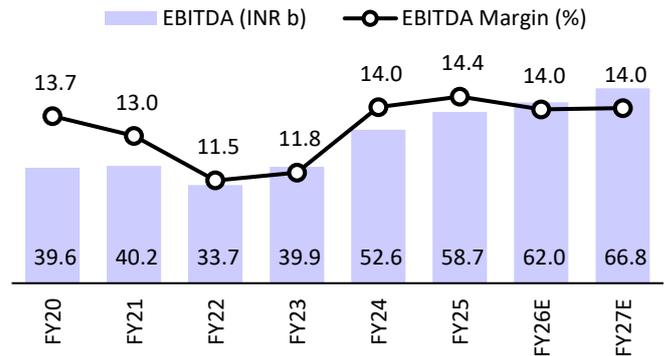


Source: MOFSL

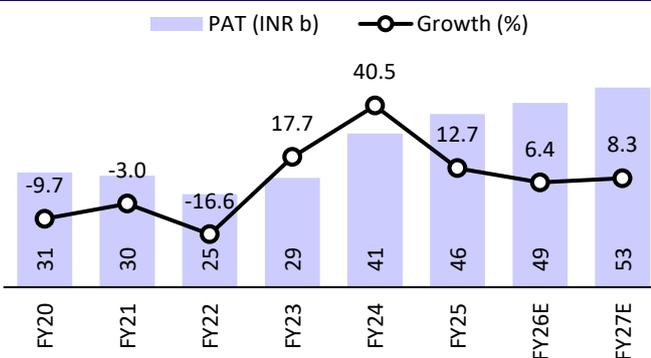
Story in charts

Exhibit 7: Steady growth expected, led by rural recovery


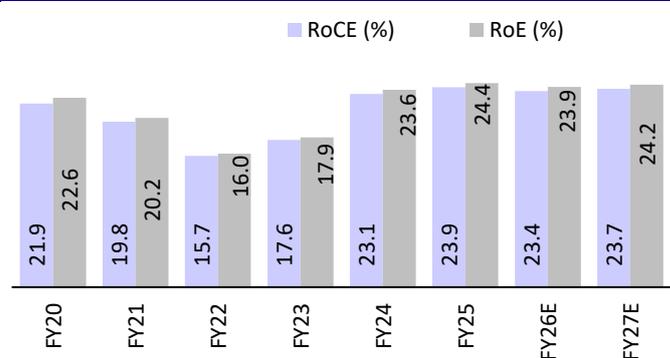
Source: Company, MOFSL

Exhibit 8: EBITDA margin trend


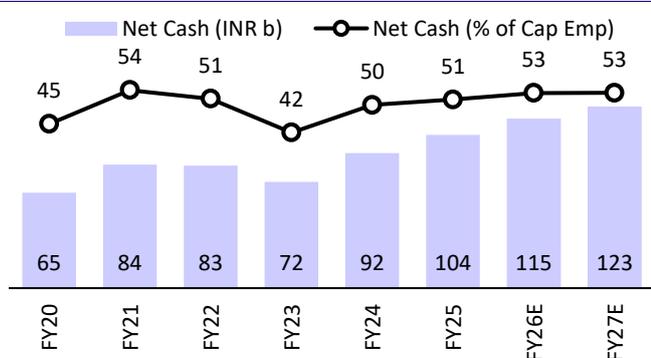
Source: Company, MOFSL

Exhibit 9: PAT growth to be steady


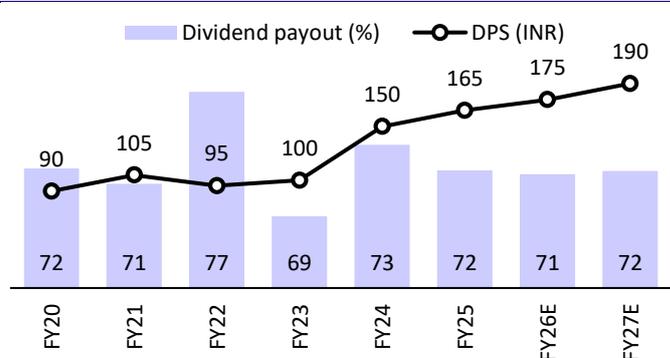
Source: Company, MOFSL

Exhibit 10: Trend in return ratios


Source: Company, MOFSL

Exhibit 11: Trend in cash levels


Source: Company, MOFSL

Exhibit 12: Dividend payout trends


Source: Company, MOFSL

Exhibit 13: Snapshot of the revenue model

000 units	FY20	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E
Total M/Cycles	5,990	5,333	4,628	4,959	5,191	5,476	5,763	6,071
Growth (%)	-15.4	-11.0	-13.2	7.2	4.7	5.5	5.2	5.3
% of total volumes	93.5	92.1	93.6	93.1	92.3	92.8	92.8	92.9
Total Scooters	419	458	316	369	431	423	444	466
Growth (%)	-43.3	9.2	-30.9	16.8	16.6	-1.9	5.0	5.0
% of total volumes	6.5	7.9	6.4	6.9	7.7	7.2	7.2	7.1
Total volumes	6,410	5,792	4,944	5,329	5,621	5,899	6,207	6,537
Growth (%)	-18.0	-9.6	-14.6	7.8	5.5	4.9	5.2	5.3
- of which Exports	162	172	290	162	171	258	284	318
% of total volumes	2.8	3.3	6.5	3.3	3.3	4.8	5.0	5.4
Net Realizations (INR/unit)	44,988	53,182	59,152	63,443	66,632	69,088	71,586	72,979
Growth (%)	4.3	18.8	10.7	8.4	6.0	3.6	3.6	1.9
Net Revenues (INR b)	288	308	292	338	375	408	444	477
Growth (%)	-14.3	6.8	-5.0	15.6	10.8	8.8	9.0	7.4

SIAM, Company, MOFSL

Financials and valuations

Income Statement							(INR M)	
Y/E March	2020	2021	2022	2023	2024	2025	2026E	2027E
Volumes ('000)	6,410	5,792	4,944	5,329	5,621	5,899	6,207	6,537
Volume Growth (%)	-18.0	-9.6	-14.6	7.8	5.5	4.9	5.2	5.3
Net Revenues	2,88,360	3,08,006	2,92,455	3,38,057	3,74,557	4,07,564	4,44,337	4,77,081
Change (%)	-14.3	6.8	-5.0	15.6	10.8	8.8	9.0	7.4
EBITDA	39,579	40,192	33,688	39,862	52,557	58,677	62,012	66,782
EBITDA Margin (%)	13.7	13.0	11.5	11.8	14.0	14.4	14.0	14.0
Depreciation	8,180	6,769	6,498	6,570	7,114	7,759	8,121	8,547
EBIT	31,400	33,424	27,190	33,293	45,443	50,918	53,891	58,235
Interest cost	220	218	258	199	185	199	201	203
Other Income	7,283	5,799	5,569	5,652	8,926	10,559	11,336	12,368
Non-recurring Expense	-7,274	0	0	0	1,600	0	0	0
PBT	45,736	39,004	32,501	38,746	52,584	61,278	65,026	70,400
Tax	9,404	9,362	7,771	9,640	12,904	15,179	15,965	17,279
Effective Tax Rate (%)	20.6	24.0	23.9	24.9	24.5	24.8	24.6	24.5
Adj. PAT	30,554	29,642	24,730	29,106	40,887	46,099	49,062	53,121
Change (%)	-9.7	-3.0	-16.6	17.7	40.5	12.7	6.4	8.3

Balance Sheet							(INR M)	
Y/E March	2020	2021	2022	2023	2024	2025	2026E	2027E
Sources of Funds								
Share Capital	400	400	400	400	400	400	400	400
Reserves	1,40,965	1,51,585	1,57,430	1,66,651	1,79,462	1,97,669	2,11,695	2,26,778
Net Worth	1,41,364	1,51,984	1,57,829	1,67,051	1,79,862	1,98,069	2,12,095	2,27,179
Deferred Tax	3,928	4,041	3,833	4,054	4,348	5,096	5,096	5,096
Capital Employed	1,45,292	1,56,025	1,61,662	1,71,105	1,84,210	2,03,165	2,17,191	2,32,274
Application of Funds								
Gross Fixed Assets	1,38,161	1,42,362	1,46,657	1,51,942	1,57,862	1,66,294	1,79,294	1,92,294
Less: Depreciation	76,991	82,478	88,592	94,328	99,522	1,07,280	1,15,401	1,23,948
Net Fixed Assets	61,171	59,884	58,065	57,614	58,340	59,014	63,893	68,346
Capital WIP	3,413	4,366	4,582	4,638	4,805	4,925	4,925	4,925
Investments	82,227	1,04,997	1,06,523	1,10,104	1,30,861	1,50,445	1,62,445	1,73,445
Curr.Assets, L & Adv.	40,683	52,364	47,970	60,276	61,709	64,817	68,959	74,771
Inventory	10,920	14,696	11,227	14,341	14,438	14,576	17,948	19,271
Sundry Debtors	16,031	24,268	23,043	27,982	27,034	36,744	33,503	35,972
Cash & Bank Balances	2,419	2,572	1,751	3,455	6,089	2,891	5,945	7,113
Loans & Advances	896	892	402	436	457	271	295	317
Others	10,417	9,938	11,547	14,062	13,691	10,335	11,268	12,098
Current Liab. & Prov.	42,201	65,585	55,478	61,527	71,506	76,037	83,030	89,212
Sundry Creditors	30,305	52,046	42,603	47,045	55,282	55,661	65,810	70,659
Other Liabilities	9,207	10,211	9,490	10,744	11,516	13,317	11,965	12,847
Provisions	2,689	3,328	3,385	3,738	4,708	7,058	5,255	5,706
Net Current Assets	-1,518	-13,222	-7,508	-1,251	-9,796	-11,220	-14,071	-14,442
Application of Funds	1,45,292	1,56,025	1,61,662	1,71,105	1,84,210	2,03,165	2,17,191	2,32,274

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	2020	2021	2022	2023	2024	2025	2026E	2027E
Basic (INR)								
EPS	153.0	148.4	123.8	145.6	204.6	230.3	245.1	265.3
EPS Growth (%)	-9.7	-3.0	-16.6	17.7	40.5	12.6	6.4	8.3
Cash EPS	222.8	182.2	156.3	178.5	234.1	269.0	285.6	308.0
Book Value per Share	707.7	760.7	789.9	835.9	900.0	989.4	1,059.4	1,134.8
DPS	90.0	105.0	95.0	100.0	150.0	165.0	175.0	190.0
Payout (Incl. Div. Tax) %	71.8	70.8	76.8	68.7	73.3	71.7	71.4	71.6
Valuation (x)								
P/E	26.6	27.4	32.9	27.9	19.9	17.7	16.6	15.3
EV/EBITDA	18.4	17.5	20.9	17.5	12.9	11.3	10.4	9.5
EV/Sales	2.5	2.3	2.4	2.1	1.8	1.6	1.5	1.3
Price to Book Value	5.7	5.3	5.1	4.9	4.5	4.1	3.8	3.6
Dividend Yield (%)	2.2	2.6	2.3	2.5	3.7	4.1	4.3	4.7
Profitability Ratios (%)								
RoE	22.6	20.2	16.0	17.9	23.6	24.4	23.9	24.2
RoCE	22.0	19.8	15.7	17.6	23.1	23.9	23.4	23.7
RoIC	40.0	50.1	44.5	49.2	71.9	87.7	91.6	96.9
Turnover Ratios								
Debtors (Days)	21	30	30	32	28	35	29	29
Inventory (Days)	15	18	15	16	15	14	16	16
Creditors (Days)	38	62	53	51	54	50	54	54
Working Capital (Days)	-2	-16	-9	-1	-10	-10	-12	-11
Asset Turnover (x)	2.0	2.0	1.8	2.0	2.0	2.0	2.0	2.1
Fixed Asset Turnover	2.3	2.2	2.0	2.3	2.4	2.5	2.6	2.6

Cash Flow Statement

Y/E March	2020	2021	2022	2023	2024	2025	2026E	2027E
(INR M)								
Profit before Tax	45,736	39,004	32,501	38,746	52,584	61,278	65,026	70,400
Depreciation & Amort.	8,180	6,769	6,498	6,570	7,114	7,759	8,121	8,547
Direct Taxes Paid	-5,443	-9,759	-7,688	-8,496	-13,142	-15,341	-15,965	-17,279
(Inc)/Dec in Working Capital	12,027	10,700	-6,825	-5,832	10,747	-3,036	5,906	1,538
Other Items	-6,399	-4,987	-4,283	-5,197	-6,637	-8,841	201	203
CF from Oper. Activity	54,101	41,727	20,203	25,791	50,665	41,819	63,290	63,409
Extraordinary Items	0	0	0	0	-1,600	0	0	0
CF after EO Items	54,101	41,727	20,203	25,791	49,065	41,819	63,290	63,409
(Inc)/Dec in FA+CWIP	-13,586	-5,101	-5,240	-5,675	-7,102	-8,103	-13,000	-13,000
Free Cash Flow	40,515	36,626	14,963	20,115	43,563	33,716	50,290	50,409
(Pur)/Sale of Invest.	-15,245	-16,998	3,721	987	-10,917	-7,755	-12,000	-11,000
CF from Inv. Activity	-28,831	-22,099	-1,519	-4,688	-18,019	-15,858	-25,000	-24,000
Interest Paid	-874	-515	-458	-455	-449	-540	-201	-203
Dividends Paid	-23,323	-18,900	-18,931	-19,951	-26,883	-27,929	-35,035	-38,038
CF from Fin. Activity	-24,198	-19,415	-19,389	-20,406	-27,331	-28,469	-35,236	-38,241
Inc/(Dec) in Cash	1,072	213	-705	697	3,715	-2,508	3,054	1,168
Add: Beginning Balance	407	1,479	1,692	987	1,684	5,399	2,891	5,945
Closing Balance	1,479	1,692	987	1,684	5,399	2,891	5,945	7,113

E: MOFSL Estimates

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BUY	>=15%
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Nainesh Rajani

Email: nainesh.rajani@motilaloswal.com

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Email Id: na@motalaloswal.com, Contact No.:022-40548085.

Grievance Redressal Cell:

Contact Person	Contact No.	Email ID
Ms. Hemangi Date	022 40548000 / 022 67490600	query@motalaloswal.com
Ms. Kumud Upadhyay	022 40548082	servicehead@motalaloswal.com
Mr. Ajay Menon	022 40548083	am@motalaloswal.com

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